

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING BY JULY 19, 2004.

AMENDATORY SECTION (Amending WSR 93-19-020, filed 9/2/93, effective 10/3/93)

WAC 458-20-150 Optometrists, ophthalmologists, and opticians. (1) **Introduction.** (~~This section explains Washington's B&O and retail sales tax applications to sales and services provided by optometrists, ophthalmologists, and opticians. It explains the tax liability resulting from the rendering of professional services and the sale of prescription lenses, frames, and other optical merchandise. It also discusses the retail sales tax exemption provided by RCW 82.08.0281 to the sale of prescription lenses.~~

(2) **Definitions.** The following definitions apply to this section.

(a) The term "professional services" is defined as the examination of the human eye, the examination and identification of any defects of the human vision system and the analysis of the process of vision. It includes the use of any diagnostic instruments or devices for the measurement of the powers or range of vision, or the determination of the refractive powers of the eye or its functions. It does not include the preparation or dispensing of lenses or eye glasses.

(b) "Prescription lens" means any lens, including contact lenses, with power or prism correction for human vision, which has been prescribed in writing by a physician or optometrist. The term "prescription lens" includes all ingredients and component parts of the lens itself, including color, scratch resistant or ultra violet coating, and fashion tints. It does not include miscellaneous service or repair charges other than the replacement or repair of the prescription lens itself.

(c) The term "optical merchandise" includes frames, springs, bows, cases, and sundry items or accessories to be worn or used with lenses. It also includes nonprescription lenses or eyeglasses. "Optical merchandise" does not include prescription lens as defined above.

(3) **Business and occupation tax.** Persons providing or selling any combination of professional services, prescription lenses, and/or optical merchandise are required to segregate and separately account for the income derived from each source. For example, persons performing eye examinations and selling

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~~prescription eyeglasses must segregate and separately account for the income attributable to eye examinations, sales of prescription lenses, and sales of frames.~~

~~(a) **Service and other business activities.** The service B&O tax applies to the gross proceeds received for providing professional services.~~

~~(b) **Retailing.** Sales of prescription lenses and optical merchandise are subject to the retailing tax, when made to consumers.~~

~~(4) **Retail sales tax.** Sales to consumers of optical merchandise, as that term is herein defined, are subject to the retail sales tax. The retail sales tax does not, however, apply to income received for providing professional services.~~

~~A retail sales tax exemption for the sale of prescription lenses is available under RCW 82.08.0281, provided the lenses are dispensed by an optician licensed under the provisions of chapter 18.34 RCW or by a physician or optometrist pursuant to a prescription written by a physician or optometrist. To claim a retail sales tax exemption under RCW 82.08.0281, persons providing or selling any combination of professional services, prescription lenses, and/or optical merchandise must segregate and separately account for the income derived from each source. (Also see WAC 458-20-18801.)~~

~~(5) **Deferred sales or use tax.** If the seller fails to collect the appropriate retail sales tax, the purchaser is required to pay the deferred sales or use tax directly to the department.~~

~~(a) The purchase of eyeglasses, lenses, frames, springs, bows, and other articles which are resold to customers or patients are purchases for resale and not subject to the retail sales tax.~~

~~(b) The retail sales or use tax applies to the purchase of office supplies and equipment. This includes subscriptions to magazines and technical publications.~~

~~(c) Purchases of supplies which are consumed in rendering a professional service are subject to the retail sales tax.~~

~~(d) Prescription drugs may be purchased without payment of retail sales or use tax by optometrists, ophthalmologists, and opticians when those drugs will be used for the diagnosis, cure, mitigation, treatment, or prevention of disease or other ailment in humans. Refer to WAC 458-20-18801.~~

~~(e) Optometrists, ophthalmologists, and opticians are required to pay use tax on any samples, with the exception of prescription drug samples, which they acquire or give away~~

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~~unless retail sales or use tax has been previously paid on these samples. However, these taxpayers are not required to pay retail sales or use tax on items which will be given to customers as part of a sale of eyeglasses or contact lenses, such as cleaning supplies, carrying cases, etc. These items are considered to be sold along with the eyeglasses or contact lenses.~~

~~(6) **Examples.** The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax status of each situation must be determined after a review of all of the facts and circumstances.~~

~~(a) DM is an optometrist who performs eye examinations and sells prescription eyeglasses and contact lenses. All sales of prescription lenses are made pursuant to written prescription. DM segregates the income attributable to the eye examinations, the sale of prescription lenses, and the sale of optical merchandise in its books of account. Retail sales tax is collected on the sale of the optical merchandise.~~

~~The income derived from the eye examinations is subject to the service B&O tax. Retailing B&O tax is due on the gross proceeds of sales of the prescription lenses and the optical merchandise. When reporting the retail sales tax liability, DM may claim a deduction for the sales of prescription lenses, but must remit the retail sales tax collected on the sales of optical merchandise.~~

~~(b) DM purchases nonprescription saline and cleaning solutions for contact lenses, and carrying cases for eyeglasses and contact lenses. The saline and cleaning solutions are consumed when DM performs eye examinations. The eyeglass and contact lens carrying cases are provided to customers at the time they purchase a pair of eyeglasses or contact lenses.~~

~~DM incurs no retail sales or use tax liability on the purchase of the eyeglass and contact lens carrying cases. These cases are considered to be purchased for resale, and sold to the customer along with the eyeglasses or contact lenses. The purchase of the saline and cleaning solutions is, however, subject to the retail sales tax. These solutions are consumed while providing professional services, and cannot be considered to be purchased for resale. They also do not qualify for sales tax exemption as prescription drugs. If DM has not paid retail sales tax at the time of purchase, it must remit use tax directly to the department.~~

~~(c) AB Inc. is a retail drugstore which includes~~

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~~preassembled "off the shelf" reading glasses in its sales inventory. These eyeglasses have lenses with power or prism correction. These glasses are sold without a written prescription.~~

~~Sales of such "off the shelf" reading glasses are subject to the retail sales tax, measured by the gross proceeds of sale. Even had AB segregated the charge between the frame and lenses, the gross proceeds of sales would be subject to the retail sales tax. The conditions and requirements necessary to qualify for exemption under RCW 82.08.0281 have not been satisfied.)) This rule explains the application of Washington's business and occupation (B&O), retail sales, and use taxes to the business activities of optometrists, ophthalmologists, and opticians. It explains the tax liability resulting from the rendering of professional services and the sale of prescription lenses, frames, and other optical merchandise. It also discusses the retail sales tax exemption for the sale of prescription lenses. The department of revenue (department) has adopted other rules dealing with the taxability of various activities relating to the provision of health care. Readers may want to refer to the following rules for additional information.~~

~~(a) WAC 458-20-151 (Dentists and other health care providers, dental laboratories, and dental technicians);~~

~~(b) WAC 458-20-168 (Hospitals, medical care facilities, and adult family homes);~~

~~(c) WAC 458-20-18801 (Prescription drugs, prosthetic and orthotic devices, ostomic items, and medically prescribed oxygen); and~~

~~(d) WAC 458-20-233 (Tax liability of medical and hospital service bureaus and associations and similar health care organizations).~~

~~(2) **Taxability of professional services.** Optometrists and ophthalmologists are subject to the service and other activities B&O tax on their gross income from providing professional services. For the purposes of this rule, "professional services" means the examination of the human eye, the examination and identification of any defects of the human vision system, and the analysis of the process of vision. It includes the use of any diagnostic instruments or devices for the measurement of the powers or range of vision, or the determination of the refractive powers of the eye or its functions. It does not include the preparation or dispensing of lenses or eyeglasses.~~

~~(3) **Purchases and sales of optical merchandise by**~~

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optometrists, ophthalmologists, and opticians. Sales of optical merchandise to consumers are subject to retailing B&O tax. In addition, the seller must collect retail sales tax unless the sale is specifically exempt by law. For the purposes of this rule, "optical merchandise" includes prescription lenses, frames, springs, bows, cases, and other items or accessories to be worn or used with lenses. It also includes nonprescription lenses or eyeglasses. For purposes of this rule, "prescription lens" means any lens, including contact lens, with power or prism correction for human vision, which has been prescribed in writing by a physician or optometrist. The term "prescription lens" includes all ingredients and component parts of the lens itself, including color, scratch resistant or ultraviolet coating, and fashion tints. It also includes repair parts and replacement parts.

Purchases of optical merchandise by optometrists, ophthalmologists, and opticians for resale without intervening use as a consumer are not subject to the retail sales tax. Thus, optometrists, ophthalmologists, and opticians are not required to pay retail sales or use tax on items which will be given to customers as part of a sale of eyeglasses or contact lenses, such as cleaning supplies, carrying cases, and the like. The department considers these items to be sold along with the eyeglasses or contact lenses. An optometrist, ophthalmologist, or optician purchasing tangible personal property for resale must furnish a properly completed resale certificate to the seller to document the wholesale nature of the sale. Resale certificates can be obtained from the department's website at <http://dor.wa.gov>, or by calling the department's telephone information center at 1-800-647-7706. For additional information regarding resale certificates, refer to WAC 458-20-102 (Resale certificates).

(a) Are sales of prescription lenses and frames exempt from retail sales tax? As a result of legislation to implement the national Streamlined Sales and Use Tax Agreement, effective July 1, 2004, sales of prescription lenses and frames for prescription lenses are exempt from retail sales tax as a prosthetic device under RCW 82.08.0283.

Before July 1, 2004, sales of prescription lenses were exempt from retail sales tax under RCW 82.08.0281, if the lenses were dispensed by an optician licensed under chapter 18.34 RCW or by a physician or optometrist under a prescription written by a physician or optometrist. Sales of frames for prescription lenses did not qualify for a sales tax exemption. Thus, before

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July 1, 2004, when prescription lenses were sold with frames, only the prescription lenses were exempt from sales tax.

(b) Are repairs of prescription lenses and frames subject to retail sales tax? Beginning July 1, 2004, charges for the repair of prescription lenses or to prescription eyeglass frames, whether the frames are the original frames or replacement frames, are exempt from retail sales tax under RCW 82.08.0283. Before July 1, 2004, charges for the repair of prescription lenses were exempt from retail sales tax. Charges for the repair of frames, however, were subject to retail sales tax.

(c) Segregation of income from different sources. To claim a retail sales tax exemption under RCW 82.08.0281 or 82.08.0283, persons providing or selling any combination of professional services, prescription lenses, or other optical merchandise must segregate and separately account for the income derived from each source.

(d) Examples. The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax status of each situation must be determined after a review of all of the facts and circumstances.

(i) Taxpayer is an optometrist who performs eye examinations and sells prescription eyeglasses, contact lenses, and other optical merchandise. All sales of prescription lenses are made under written prescription. Income attributable to the eye examinations, the sale of prescription lenses, and the sale of other optical merchandise is segregated in Taxpayer's books of account.

The income derived from the eye examinations is subject to service and other activities B&O tax. The gross proceeds of sales of the prescription lenses and other optical merchandise are subject to retailing B&O tax. The sales of prescription lenses, including contact lenses, are exempt from retail sales tax. Beginning July 1, 2004, sales of eyeglass frames with prescription lenses are exempt from retail sales tax. Taxpayer, however, must collect retail sales tax on sales of other optical merchandise, including eyeglass frames sold with prescription lenses before July 1, 2004, and remit the tax to the department.

(ii) Taxpayer is a retail drugstore that sells preassembled "off-the-shelf" reading glasses. These eyeglasses have lenses with power or prism correction and are sold without a prescription. In addition, Taxpayer sells magnifiers, binoculars, monoculars, and sunglasses. These items are also

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sold without a prescription.

The gross proceeds of sales of these items are subject to retailing B&O tax. In addition, Taxpayer must collect retail sales tax on sales of these items and remit the tax to the department. Because these items are not sold under a prescription, nor are they prescribed, fitted, or furnished for the buyer by a person licensed under the laws of this state to prescribe, fit, or furnish prosthetic devices, they are not exempt from retail sales tax under either RCW 82.08.0281 or 82.08.0283.

(4) **Equipment and supplies used by optometrists, ophthalmologists, and opticians.** Purchases of equipment and supplies used by optometrists, ophthalmologists, and opticians are purchases at retail and are subject to retail sales tax unless specifically exempt by law. If the seller does not collect retail sales tax, the optometrist, ophthalmologist, or optician must remit the retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department unless specifically exempt by law. Deferred sales or use tax should be reported on the buyer's excise tax return. The excise tax return does not have a separate line for reporting deferred sales tax. Consequently, deferred sales tax liability should be reported on the use tax line of the buyer's excise tax return. For detailed information about use tax, refer to WAC 458-20-178 (Use tax).

(a) **Prescription drugs.** "Prescription drugs," as defined in RCW 82.08.0281, may be purchased without payment of retail sales or use tax by optometrists and ophthalmologists if all requirements for the exemption are met. For additional information regarding prescription drugs, refer to WAC 458-20-18801.

(b) **Samples.** Optometrists, ophthalmologists, and opticians are required to pay use tax on any samples, with the exception of prescription drug samples that they acquire unless retail sales or use tax has been previously paid on these samples.

(c) **Examples.** The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax status of each situation must be determined after a review of all of the facts and circumstances.

(i) Taxpayer is an ophthalmologist who performs eye examinations, laser surgery, and cataract surgery. Taxpayer purchases equipment and supplies that are used in performing these services such as surgical instruments, eye shields, cotton

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swabs, sterile dressings, bandages and gauze. Taxpayer also purchased a computer, technical publications, and magazines by mail order and over the internet.

Taxpayer is subject to retail sales tax on these purchases. If the seller does not collect sales tax, Taxpayer is liable for deferred sales tax or use tax and must remit the tax directly to the department.

(ii) Taxpayer is an optometrist who performs eye examinations and sells prescription eyeglasses, contact lenses, and other optical merchandise. Taxpayer purchases nonprescription saline and cleaning solutions for contact lenses and carrying cases for eyeglasses and contact lenses. The saline and cleaning solutions are consumed when Taxpayer performs eye examinations. The eyeglass and contact lens carrying cases are provided to customers at the time they purchase eyeglasses or contact lenses.

The purchases of the eyeglass and contact lens carrying cases are purchases for resale and are, therefore, not subject to sales tax if Taxpayer provides the seller with a properly completed resale certificate. The purchases of the saline and cleaning solutions are, however, subject to the retail sales tax. These solutions are consumed while providing professional services and cannot be considered to be purchased for resale. They also do not qualify for a sales tax exemption under RCW 82.08.0281 as prescription drugs. If retail sales tax was not paid on the saline and cleaning solutions at the time of purchase, Taxpayer must remit deferred sales tax or use tax directly to the department.